

# HOUSING AUTHORITY OF THE CITY OF LA JOYA



Financial Statements  
And  
Independent Auditors' Report

December 31, 2018

# Housing Authority of the City of La Joya

La Joya, Texas  
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December 31, 2018

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**Board of Commissioners**

**Housing Authority of the City of La Joya**

La Joya, Texas

**Independent Auditors' Report**

**Report on the Financial Statements**

We have audited the accompanying financial statements of business-type activities of the Housing Authority of the City of La Joya as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

**Auditors' Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

**Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Housing Authority of the City of La Joya, as of December 31, 2018, and the respective change in financial position and cash flows thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

**Other Matters*****Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

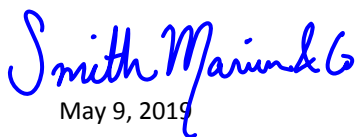
***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Housing Authority of the City of La Joya's financial statements. The supplemental information, as described in the table of contents, is presented for purposes of additional analysis and are not a required part of the financial statements.

The supplemental information, as described in the table of contents, is the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental information, as described in the table of contents, is fairly stated in all material respects in relation to the financial statements as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated May 9, 2019, on our consideration of the Housing Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Housing Authority of the City of La Joya's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Housing Authority of the City of La Joya's internal control over financial reporting and compliance.



May 9, 2019

## **Housing Authority of the City of La Joya**

### **Management's Discussion and Analysis (MD&A)**

**December 31, 2018**

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#### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

The Management's Discussion and Analysis (the "MD&A") is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the Housing Authority of the City of Jackson's, (the "Authority") financial activity, (c) identify changes in the Authority's financial position (its ability to address the next and subsequent years' challenges), and (d) identify issues or concerns. This will now be presented at the front of each year's financial statements.

Since the MD&A is designed to focus on the current year's activities, resulting changes and currently known facts, please read it in conjunction with the financial statements, which follow this section.

#### **FINANCIAL HIGHLIGHTS**

- Net Position at December 31, 2018, decreased to \$1,372,604. Since the Authority engages only in business-type activities, the decrease is all in the category of business-type net position. Net position was \$1,468,488 for 2017.
- The business-type activities operating revenue at December 31, 2018, increased to \$992,925. Total operating revenue was \$947,654 for 2017.
- The total operating expenses of all programs for December 31, 2018, decreased to \$1,142,983. Total operating expenses were \$1,191,875 for 2017.

#### **OVERVIEW OF THE FINANCIAL STATEMENTS**

The financial statements included in this annual report are those of a special-purpose government engaged in a business-type activity. This MD&A is intended to serve as an introduction to the Authority's basic financial statements.

The following statements are included:

- Statement of Net Position - reports current financial resources (short-term expendable resources) with capital assets and long-term obligations.
- Statement of Revenue, Expenses, and Changes in Fund Net Position - reports operating and nonoperating revenue, by major source along with operating and nonoperating expenses and capital contributions.
- Statement of Cash Flows - reports cash flows from operating, investing, capital, non-capital activities.

#### **PROGRAMS OF THE AUTHORITY**

Public Housing Program - Under the Conventional Public Housing Program, the Authority rents units that it owns to low-income households. The Conventional Public Housing Program is operated under an Annual Contributions Contract (ACC) with HUD, and HUD provides Operating Subsidy and Capital Grant funding to enable the PHA to provide the housing at a rent that is based upon 30% of household income after deductions. The Conventional Public Housing Program also includes the Capital Fund Program, which is the primary funding source for physical and management improvements to the Authority's properties.

Capital Fund Grants - The Authority's capital funds are received from the federal government through a formula driven computation. These funds are used to upgrade our facilities at various developments to give our residents the decent and safe living environment they need. Each year's grant funds must be entirely obligated within two years of inception of the grant, and entirely expended within four years.

Housing Choice Voucher - The objective of this program is to provide housing for eligible low-income families through housing assistance payments to private landlords. In addition to this program the Housing Authority received additional Disaster Vouchers from HUD.

## FINANCIAL ANALYSIS

The following tables focus on the Net Position and the change in net position of the primary government as a whole.

**TABLE 1 - STATEMENT OF NET POSITION**

	2018	2017	Increase (Decrease)	% of Change
Current Assets	\$ 33,620	\$ 26,410	7,210	27.30%
Capital Assets, Net	1,375,157	1,479,295	(104,138)	-7.04%
Deferred Outflow of Resources	-	-	-	0.00%
Total Assets and Deferred Outflow of Resources	<u>1,408,777</u>	<u>1,505,705</u>	<u>(96,928)</u>	<u>-6.44%</u>
Current Liabilities	\$ 34,730	\$ 37,217	\$ (2,487)	-6.68%
Noncurrent Liabilities	1,443	-	1,443	0.00%
Deferred Inflow of Resources	-	-	-	0.00%
Total Liabilities and Deferred Inflow of Resources	<u>36,173</u>	<u>37,217</u>	<u>(1,044)</u>	<u>-2.81%</u>
Net Position				
Net investment in capital assets	1,375,157	1,479,294	(104,137)	-7.04%
Restricted	27,729	7,128	20,601	289.02%
Unrestricted	<u>(30,282)</u>	<u>(17,934)</u>	<u>(12,348)</u>	<u>68.85%</u>
Total Net Position	<u>\$ 1,372,604</u>	<u>\$ 1,468,488</u>	<u>\$ (95,884)</u>	<u>-6.53%</u>

## MAJOR FACTORS AFFECTING THE STATEMENT OF NET POSITION

Current assets increased by \$7,210 primarily due to increase in Capital Funds HUD Accounts Receivable during the fiscal year.

Capital assets decreased by \$104,138 due to accumulated depreciation during the fiscal year.

Current liabilities decreased by \$2,487 due to accounts payable and accrued compensation leave.

**TABLE 2 - STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN FUND NET POSITION**

The following schedule compares the revenue and expenses for the current and previous fiscal years. The Authority is engaged only in business-type activities.

	2018	2017	Increase (Decrease)	% of Change
Operating Revenue				
Rental Income, net	\$ 126,460	\$ 119,043	\$ 7,417	6.23%
Federal Grants and Subsidies	849,599	818,703	30,896	3.77%
Other Income	16,866	9,908	6,958	70.23%
Total Operating Revenue	992,925	947,654	45,271	4.78%
Operating Expenses				
Administration	329,836	318,975	10,861	3.40%
Utilities	9,666	10,192	(526)	-5.16%
Maintenance	92,530	142,316	(49,786)	-34.98%
Protective services	205	2,318	(2,113)	-91.16%
General	21,212	36,964	(15,752)	-42.61%
Housing Assistance Payments	531,240	523,808	7,432	1.42%
Depreciation	158,294	157,302	992	0.63%
Total Operating Expenses	1,142,983	1,191,875	(48,892)	-4.10%
Operating Income (Loss)	(150,058)	(244,221)	94,163	-38.56%
Non-operating Revenue (Expenses)	18	18	-	0.00%
Income (Loss) before Contributions	(150,040)	(244,203)	94,163	-38.56%
Capital Contributions	54,156	-	54,156	0.00%
Change in Net Position	(95,884)	(244,203)	\$ 148,319	-60.74%
Net Position - Beginning	1,468,488	1,712,691		
Net Position - Ending	\$ 1,372,604	\$ 1,468,488		

**MAJOR FACTORS AFFECTING THE STATEMENT OF REVENUE, EXPENSES AND CHANGES IN FUND NET POSITION**

The increase in Change in Net Position was \$148,319 primarily due to the increase in grants and the decrease in maintenance expenses and general expenses during the fiscal year.

The Authority had an operating loss of \$150,058 including non-cash depreciation expense of \$158,294 versus an operating loss of \$244,203 including depreciation expense of \$157,302 in prior year.

Total operating revenue increased by \$45,271 to \$992,925 primarily due to the increase of federal grant funds and rental income received during the fiscal year ended December 31, 2018.

Total operating expenses decreased by \$48,892 to \$1,142,983 primarily due to the decrease in overall maintenance expenses and general operating expenses.

### CAPITAL ASSETS

As of December 31, 2018, investment in capital assets for its business-type activities was \$1,375,157 net of accumulated depreciation. This investment in capital assets includes land, buildings, improvements and equipment.

	2018	2017	Increase (Decrease)	% of Change
Land	247,179	\$ 247,179	\$ -	0.00%
Buildings	2,858,700	2,858,700	-	0.00%
Improvements	1,268,134	1,213,978	54,156	4.46%
Furniture & equipment	102,328	102,328	-	0.00%
Subtotal	4,476,341	4,422,185	54,156	1.22%
Accumulated Depreciation	(3,101,184)	(2,942,890)	(158,294)	5.38%
Net Capital Assets	<u>\$ 1,375,157</u>	<u>\$ 1,479,295</u>	<u>\$ (104,138)</u>	<u>-7.04%</u>

Major capital asset purchases during the current fiscal year included the following:

- Roof replacement and HVAC Units

Major capital asset disposals during the current fiscal year included the following:

- None noted for year ending December 31, 2018.

### DEBT

The Authority had no long-term obligations such as notes or bonds payable.

### ECONOMIC FACTORS

Significant economic factors affecting the Authority are as follows:

- Federal funding of the Department of Housing and Urban Development.
- Local labor supply and demand, which can affect salary and wage rates.
- Local inflation, recession and employment trends, which can affect resident incomes and therefore the amount of rental income.
- Inflationary pressure on utility rates, supplies and other costs.
- Pending final eligibility, 2018 Authority's Operating Subsidy budget estimates funding to be at 80.00%. This continues to pose an economic hardship on the Authority.

### FINANCIAL CONTACT

This financial report is designed to provide a general overview of the finances for all those with an interest in the Authority's finances. Questions concerning any of the information provided in this report or request for additional information should be addressed to Mrs. Cristi LaJeunesse, Executive Director, Housing Authority of the City of La Joya, (956) 581-7069.



**Housing Authority of the City of La Joya**

Proprietary (Enterprise) Fund Type

Statement of Net Position

December 31, 2018

**ASSETS****Current Assets**

Cash and equivalents

Unrestricted \$ 7,502

Restricted 16,348

**Subtotal** 23,850

Accounts receivable, net 9,770

**Total Current Assets** 33,620**Non-current Assets**

Capital assets, net of depreciation 1,375,157

**Total Non-current Assets** 1,375,157**TOTAL ASSETS** 1,408,777**DEFERRED OUTFLOWS OF RESOURCES** -**LIABILITIES****Current Liabilities**

Accounts payable 17,685

Deposits held in trust 16,348

Compensated absences, current 357

Unearned revenue 340

**Total Current Liabilities** 34,730**Non-current Liabilities**

Compensated absences, long-term 1,443

**Total Non-current Liabilities** 1,443**TOTAL LIABILITIES** 36,173**DEFERRED INFLOWS OF RESOURCES** -**NET POSITION**

Investment in capital assets 1,375,157

Restricted 27,729

Unrestricted (30,282)

**TOTAL NET POSITION** \$ 1,372,604

**Housing Authority of the City of La Joya**

Proprietary (Enterprise) Fund Type

Statement of Revenues, Expenses and Changes in Fund Net Position

For the year ended December 31, 2018

**REVENUES****Operating Revenues**

Dwelling rent, net	\$	126,460
Government grants, operating		849,599
Other income		16,866
<b>Total Operating Revenues</b>		<u>992,925</u>

**Operating Expenses**

Administration		329,836
Utilities		9,666
Maintenance and operations		92,530
Protective services		205
General expense		21,212
Housing assistance payments		531,240
Depreciation		158,294
<b>Total Operating Expenses</b>		<u>1,142,983</u>

**Net Operating Income (Loss)**(150,058)**Non-operating Revenues (Expenses)**

Interest income		18
<b>Total Non-operating Revenues (Expenses)</b>		<u>18</u>

**Income (Loss) before Contributions**

(150,040)

Government grants, capital contributions - HUD

54,156**Change in Net Position**

(95,884)

**Beginning Net Position**1,468,488**Ending Net Position**\$ 1,372,604

**Housing Authority of the City of La Joya**

Proprietary (Enterprise) Fund Type

Statement of Cash Flows

For the year ended December 31, 2018

**CASH FLOWS FROM OPERATING ACTIVITIES**

Receipts from tenants and users	\$ 140,394
Receipts from operating grants	849,259
Payments for goods and services	(287,109)
Payments for housing assistance payment	(531,240)
Payments to or on behalf of employees for services	(166,529)

**NET CASH FLOW PROVIDED (USED) BY OPERATING ACTIVITIES**4,775**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES**

Capital contribution grant from HUD	54,156
Capital asset purchases	(54,156)

**NET CASH FLOW PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES**-**CASH FLOWS FROM INVESTING ACTIVITIES**

Interest income received	18
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**NET CASH FLOW PROVIDED (USED) BY INVESTING ACTIVITIES**18**NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS**

4,793

**BEGINNING CASH AND EQUIVALENTS**19,057**ENDING CASH AND EQUIVALENTS**\$ 23,850**RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES**

Operating income (loss)	\$ (150,058)
<b>Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:</b>	
Depreciation expense	158,294
(Increase) decrease in accounts receivable	(2,417)
Increase (decrease) in accounts payable and accrued liabilities	(1,989)
Increase (decrease) in deposits held in trust	(817)
Increase (decrease) in compensated absences	1,800
Increase (decrease) in unearned revenue	(38)
Total Adjustments	<u>154,833</u>
Net Cash Provided (Used) by Operating Activities	<u><u>\$ 4,775</u></u>

**NOTE 1 - SUMMARY OF SIGNIFICANT POLICIES**

***Introduction***

The financial statements of Housing Authority of the City of La Joya (the "Authority") have been prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The Authority has previously implemented GASB Statement 34, *Basic Financial Statements – and Management's Discussion and Analysis-for State and Local Governments*. Certain significant changes in the statements are as follows: The financial statements will include a Management's Discussion and Analysis (MD&A) section providing an analysis of the Authority's overall financial position and results of operations.

Housing Authority of the City of La Joya is a special-purpose government engaged only in business-type activities and, therefore, presents only the financial statements required for enterprise funds, in accordance with GASB Statement 34, paragraph 138 and GASB 63. For these governments, basic financial statements and required supplemental information consist of:

- Management's Discussion and Analysis (MD&A)
- Enterprise fund financial statements consisting of:
  - Statement of Net Position
  - Statement of Revenues, Expenses & Changes in Net Position
  - Statement of Cash Flows
- Notes to Financial Statements

Under the United States Housing Act of 1937, as amended, the U.S. Department of Housing and Urban Development (HUD) has direct responsibility for administering low income housing programs in the United States. Accordingly, HUD has contracted with the Authority to administer certain HUD funds.

**A. Reporting Entity**

GASB established criteria for determining the governmental reporting entity. Under provisions of this statement, Housing Authority of the City of La Joya is considered a primary government, since it is a special-purpose government that has a separately elected governing body, is legally separate, and is fiscally independent of other state and local governments. Fiscally independent means that the Authority may, without the approval or consent of another governmental entity, determine or modify its own budget, control collection and disbursements of funds, maintain responsibility for funding deficits and operating deficiencies, and issue bonded debt.

In determining the financial reporting entity, the Authority complies with the provisions of GASB to include all component units of which the Authority appointed a voting majority of the units' board: the Authority is either able to impose its will on the unit or a financial benefit or burden relationship exists. On the basis of the application of these criteria, there is a blended component unit which is required to be included in the Authority's financial statements. Also, the Authority is not a component unit of any other primary government.

**La Joya Housing Authority Non-Profit Corporation** – The Corporation is a Texas not for profit Corporation under Section 501 (c) 3 of the Internal Revenue Code, and is exempt from federal and state income taxes. Corporation is on the same fiscal year end as the Housing Authority. Under the definitions of 24 CFR 811.102, the corporation qualifies as an "instrumentality public housing agency," and therefore is considered to be a "quasi-governmental organization." No separate financial statements have been issued for this Corporation.

The main programs of the Authority are as follows:

**Public Housing** (commonly referred to as Low-income housing or Low Rent) - The Public Housing Program provides and operates cost-effective, decent, safe and affordable housing to low-income households. The Public Housing Program is operated under an Annual Contributions Contract (ACC) with HUD who provides Operating Subsidy and Capital Grant funding to enable the Authority to provide the housing at a rent that is based upon 30% of household income. The Public Housing Program also includes the Capital Fund Program (CFP), which is the primary funding source for physical and management improvements to the Authority's properties.

**Housing Choice Voucher Program** - The Housing Choice Voucher Program is designed to aid very low-income families in obtaining decent, safe, and sanitary rental housing. The Authority administers contracts with independent landlords that own property and rent that property to families that have applied for housing assistance through the Authority. The Authority subsidizes the family's rent through a Housing Assistance Payment made to the landlord. The program is administered under an Annual Contributions Contract (ACC) with HUD. HUD provides Annual Contributions Funding to enable the Authority to structure a lease that sets the participants' rent at 30% of household income.

B. Basic Financial Statements/Funds

All activities of Housing Authority of the City of La Joya are reported in proprietary fund types. The focus of proprietary fund measurement is upon determination of operating income, changes in net position, financial position and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector. Enterprise funds are required to be used to account for operations for which a fee is charged to external users for goods or services and the activity (a) is financed with debt that is secured by the Authority's capital assets and by a pledge of the net revenues, (b) has third party requirements that the cost of providing services, including capital costs, be recovered with fees and charges or (c) establishes fees and charges based on a pricing policy designed to recover similar costs.

In the Statement of Net Position, equity is classified as net position and displayed in three components:

- a) Investment in capital assets – Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balance of any notes or other borrowings attributable to those capital assets.
- b) Restricted net position – Consists of net position with constraints placed on the use either by external groups, such as grantors or laws and regulations of other governments, or law through constitutional provisions or enabling legislation.
- c) Unrestricted net position – All other net positions that do not meet the definition of “restricted” or “net investment in capital assets”.

When both restricted and unrestricted net positions are available for use, generally it is the Authority's policy to use restricted resources first.

C. Accrual Basis of Accounting

Basis of accounting refers to the point at which revenues or expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

Proprietary fund financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

D. Budgetary Data

Enterprise fund service delivery levels are determined by the extent of consumer demand. Because enterprise fund revenues and expenses fluctuate with changing service delivery levels, generally accepted accounting principles do not require the financial statements to include budgetary comparisons and, accordingly, these comparisons have not been included.

Budgets are prepared for regulatory purposes in accordance with Housing Authority of the City of La Joya's contract with HUD. The Authority prepares annual budgets for each program. Prior to the beginning of each budget year, the Authority's annual budget is approved by its governing body. Budgetary amendments require approval by the governing body. All budgetary appropriations lapse at the end of each year. Budgets for Capital Fund Programs are approved in the Authority's 5-year and annual plans.

E. Financial Statement Accounts & Other Accounting Matters

*Cash and Equivalents.* The Authority defines cash to include certificates of deposit, money market funds, savings accounts, demand deposits, and other short-term securities with original maturities of three months or less; consequently, the cost, carrying value, and market value are equivalent.

All deposits of the Authority are made in board-designated official depositories and are secured by HUD regulations. The annual contribution contract authorizes the Authority to invest in the following types of securities:

1. Obligations of the Federal Government which are backed by the full faith and credit of the Federal Government.
2. Obligations of any agency or instrumentality of the Federal Government if the payment of interest and principal on such obligations is fully guaranteed by the Federal Government.
3. Obligations of the Federal Intermediate Credit Banks, the Federal Home Loan Banks, the Federal National Mortgage Association, the Bank for Cooperatives, and the Federal Land Banks which mature no later than 18 months after the date of purchase.

During the fiscal year and at year-end, all cash was held in the form of interest bearing accounts. The deposits and the above described investments with an original maturity of 90 days or less are considered cash and cash equivalents for the Statement of Cash Flows.

*Accounts Receivable.* Accounts receivable consists of all amounts earned at year end and not yet received. Allowances for uncollectible accounts are based upon historical trends and periodic aging of accounts receivable.

Accounts for which no possibility of collection is anticipated are charged to bad debts expense which is netted against tenant revenues on the Statement of Revenues, Expenses, & Changes in Fund Net Position.

Also included in accounts receivable are fraud recovery notes from tenants who had unreported income. Collectability of these notes is not able to be determined at this time, therefore they are 100% offset by an allowance for collectability.

*Restricted Cash.* Restricted cash consists of cash set aside by HUD for the Housing Choice Voucher Program, cash and investments that are held in trust, reserves and escrows, as well as other cash and investments that are restricted for specific purposes.

*Unearned Revenue.* Unearned revenues, if any, consist of rental payments made by tenants in advance of their due date, and rental supplements to be paid to owners of private dwellings during the first month of the next fiscal year.

**Capital Assets.** Capital assets purchased or acquired with an original cost of \$50 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

Depreciation of exhaustible capital assets is charged as an expense against operations utilizing the double-declining balance method. Accumulated depreciation is reported on the Statement of Net Position. The estimated useful lives for each major class of depreciable fixed assets are as follows:

<u>Category</u>	<u>Useful Life (YR)</u>
Buildings and improvement	10-30 Years
Site improvements	15-30 Years
Furniture and equipment	5 Years

**Deposits Held in Trust.** Deposits held in trust consist of amounts held in trust with Housing Authority of the City of La Joya for tenants to secure apartment leases.

**Revenues.** All Housing Authority of the City of La Joya revenues are accrued. These revenues consist of user charges for rents, utilities, repairs and other miscellaneous charges. Monies received from customers for security deposits are recorded as a liability upon receipt. Subsidies and grants, which finance current operations, are reported as operating revenues. Subsidies and grants, which finance capital operations, gain/loss on sale of fixed assets, and interest income/expense, are reported as non-operating revenues.

Revenues for government-mandated and voluntary exchange transactions, are recorded when all applicable eligibility requirements, including time requirements, are met. Resources received before all eligibility requirements are met are reported as deferred inflows of resources.

In accordance with GASB standards, for the fiscal year ended December 31, 2018, dwelling income of \$126,460 has been netted with bad debt expense of \$-.

**Expenditures.** Expenditures are recognized when the liability is incurred. Inventory costs are reported in the period when inventory items are used, rather than in the years purchased.

**Depreciation.** Depreciation expense of \$158,294 has been recognized as of December 31, 2018.

**Use of Estimates.** The preparation of financial statements in conformity with generally accepted accounting principles as applied to governmental units require management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Leasing Activities.** The Authority is the lessor of dwelling units to eligible residents. The rents under the leases are determined generally by the residents' income as adjusted for eligible deductions regulated by HUD, although the residents may opt for a flat rent. Leases may be cancelled at any time or renewed annually. The Authority may cancel the leases only for a cause. Revenues associated with these leases are recorded in the accompanying financial statements and related schedules within dwelling rent revenue.

**Subsequent Events.** Housing Authority of the City of La Joya adopted the Subsequent Events topic of the GASB Accounting Standards, which requires disclosure of the date through which subsequent events have been evaluated. Management performed an evaluation of the Authority's activity through May 9, 2019, the audit report date, and has concluded that there are no significant subsequent events requiring disclosure through the date these financial statements were issued.

*Deferred Inflows/Outflows of Resources.* In accordance with GASB Statements, in addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then.

Also, in addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then.

*Internal Activity.* All transfers and other interfund activity balances have been eliminated from the financial statements in accordance with GASB.

## NOTE 2 - CASH AND EQUIVALENTS

Cash balances are contained in the following types of accounts at various financial institutions at December 31, 2018:

<i>Unrestricted</i>	
Checking and money market	\$ 7,502
Subtotal	7,502
<i>Restricted</i>	
Checking - deposits held in trust	16,348
Subtotal	16,348
	<u>\$ 23,850</u>

Collateralization - As of December 31, 2018, all federal funds of the Authority were fully collateralized in compliance with HUD regulations, PIH Notice 96-33 and collateralized.

All the deposits of the Housing Authority of the City of La Joya are either insured or collateralized by using the Dedicated Method whereby all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the Authority's agents in these units' names. The Housing Authority of the City of La Joya has no policy regarding custodial credit risk for deposits.

In accordance with GASB Statements, the Authority's exposure to deposit and investment risk is disclosed as follows:

*Interest rate risk* - As a means of limiting its exposure to market value losses arising from rising interest rates, the Authority's typically limits its investment portfolio to maturities of 3 months or more. The Housing Authority of the City of La Joya has no specific policy regarding interest rate risk.

*Credit risk* - The Authority's formal investment policy does not specifically address credit risk. Credit risk is generally evaluated based on the credit ratings issued by nationally recognized statistical rating organizations.

*Custodial credit risk* - For an investment, the custodial risk is the risk that in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Authority's policy is to limit this risk by adherence to the list of HUD permitted investments, which are backed by the full faith and credit of or a guarantee of principal and interest by the U.S. Government.

*Concentration of credit risk* - The Authority places no limit on the amount that it may invest in any one issuer. The Authority has no policy regarding credit risk.



**Fair Value Estimates**

Accounting pronouncements define fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. These pronouncements established a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs.

The three levels of inputs used to measure fair value are as follows:

- Level 1 – Quoted prices in active markets for identical assets or liabilities.
- Level 2 – Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; or inputs that are observable or can be corroborated by observable market data.
- Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

The estimated fair value of the Authority's financial instruments has been determined by management using available market information. However, considerable judgment is required in interpreting market data to develop the estimates of fair value. Accordingly, the fair values are not necessarily indicative of the amounts that the Authority could be realized in a current market exchange. The use of different market assumptions may have a material effect on the estimated fair value amounts.

The carrying amounts of cash and cash equivalents, receivables, payables and accrued liabilities are a reasonable estimate of their fair value, due to their short-term nature and method of computation.

All financial assets that are measured at fair value on a recurring basis (at least annually) have been segregated into the most appropriate level within the fair value hierarchy based on the inputs used to determine the fair value at the measurement date.

**NOTE 3 - ACCOUNTS RECEIVABLE**

Accounts receivable consisted of the following as of December 31, 2018:

Tenants' accounts receivable	\$ 10,478
Allowance for doubtful accounts - tenants	<u>(1,048)</u>
Subtotal	9,430
Due from other governments	340
Other receivables	<u>-</u>
	<u><u>\$ 9,770</u></u>

The above receivable balance excludes interfund that have been eliminated as a result of consolidated financial statements at December 31, 2018.

**Housing Authority of the City of La Joya**

Notes To Financial Statements  
For The Year Ended December 31, 2018

**NOTE 4 - CAPITAL ASSETS**

The following is a summary of changes in the net capital assets for the Authority during the fiscal year ended December 31, 2018:

	Balance at 12/31/17	Additions	Deletions	Balance at 12/31/18
Capital Assets not Being Depreciated:				
Land	\$ 247,179	\$ -	\$ -	\$ 247,179
Construction in process	-	54,156	(54,156)	-
Total Capital Assets not Being Depreciated	247,179	54,156	(54,156)	247,179
Capital Assets Being Depreciated				
Buildings	2,858,700	-	-	2,858,700
Improvements	1,213,978	54,156	-	1,268,134
Furniture & equipment	102,328	-	-	102,328
Total Assets Being Depreciated	4,175,006	54,156	-	4,229,162
Accumulated Depreciation	(2,942,890)	(158,294)	-	(3,101,184)
Net Capital Assets Being Depreciated	1,232,116	(104,138)	-	1,127,978
<b>Capital Assets (Net)</b>	<b>\$ 1,479,295</b>	<b>\$ (49,982)</b>	<b>\$ (54,156)</b>	<b>\$ 1,375,157</b>

Commitments arise primarily from construction in progress. All project funds are provided by grant from HUD; therefore no additional funding is required to satisfy outstanding commitments at December 31, 2018.

Depreciation expense for the year end December 31, 2018 was \$158,294.

**NOTE 5 - CONTINGENCIES**

**A. Risk Management**

The Authority is exposed to various risk of losses related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Claims liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. There were no claims in excess of commercial coverage during the previous three years. These losses include an estimate of claims that have been incurred but not reported. At December 31, 2018, there were no liabilities to be reported.

As of December 31, 2018, the Authority was a participating member of the Texas Municipal League – intergovernmental Risk Pool, a risk-management pool, which provides the following coverage: property; general liability; official's liability; auto liability; employee liability for dishonesty or forgery; workers compensation; and employee liability for theft, disappearance and destruction.

**B. Government Examinations**

The Authority is subject to possible examinations made by Federal and State authorities who determine compliance with terms, conditions, laws and regulations governing other grants given to the Authority in the current and prior years.

**NOTE 6 – ECONOMIC DEPENDENCY**

The Authority receives approximately 88% of funds used for affordable housing activities from the U.S. Department of Housing and Urban Development.

# Housing Authority of the City of La Joya

Proprietary (Enterprise) Fund Type

Statement and Certification of Actual Capital Fund Program Costs - Completed

December 31, 2018

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1. The Actual Modernization Costs of Phase TX 448 was as follows:

	<u>TX59P448501-17</u>
Funds Approved	\$ 69,108
Funds Expended	<u>69,108</u>
Excess (Deficiency) of Funds Approved	<u><u>\$ -</u></u>

Funds Advanced:

HUD Grant	\$ 69,108
Funds Expended	<u>69,108</u>
Excess (Deficiency) of Funds Advanced	<u><u>\$ -</u></u>

2. The distribution of costs as shown on the Financial Statement of Modernization costs accompanying the Actual Modernization Cost Certificate submitted to HUD for approval, is in agreement with the PHA's records.
3. All modernization costs have been paid and all related liabilities have been discharged through payment.

**Housing Authority of the City of La Joya**

Proprietary (Enterprise) Fund Type

Statement and Certification of Actual Capital Fund Program Costs - Uncompleted

December 31, 2018

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1. The Actual Modernization Costs of Phase TX 448 was as follows:

	<u>TX59P448501-18</u>
Funds Approved	\$ 101,435
Funds Expended	<u>70,440</u>
Excess (Deficiency) of Funds Approved	<u><u>\$ 30,995</u></u>

## Funds Advanced:

HUD Grant	\$ 70,100
Funds Expended	<u>70,440</u>
Excess (Deficiency) of Funds Advanced	<u><u>\$ (340)</u></u>

# HOUSING AUTHORITY OF THE CITY OF LA JOYA



Supplementary Information

For The Year Ended December 31, 2018

# Housing Authority of the City of La Joya

La Joya, Texas  
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December 31, 2018

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**Board of Commissioners**  
**Housing Authority of the City of La Joya**  
La Joya, Texas

### **Independent Auditors' Report On Supplementary Information**

We have audited the basic financial statements of the Housing Authority of the City of La Joya as of and for the year ended December 31, 2018, and have issued our report thereon dated May 9, 2019, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying financial data schedules are presented for purposes of additional analysis and are not a required part of the basis financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the financial data schedules are fairly stated in all material respects in relation to the financial statements as a whole.

  
May 9, 2019



# Housing Authority of the City of La Joya

Financial Data Schedule

December 31, 2018

Line Item #	Account Description	Public Housing Projects Total	Housing Choice Vouchers	Blend Component Unit	Elimination	TOTAL
111	Cash - unrestricted	6	2,606	4,890	-	7,502
112	Cash - restricted modernization	-	-	-	-	-
113	Cash - other restricted	-	-	-	-	-
114	Cash - tenant security deposits	16,348	-	-	-	16,348
115	Cash - restricted for payment of current liability	-	-	-	-	-
100	<b>Total cash</b>	16,354	2,606	4,890	-	23,850
122	Accounts receivable-operating subsidy	340	-	-	-	340
125	Accounts receivable-misc	-	-	-	-	-
126	Accounts receivable-tenants	10,478	-	-	-	10,478
126.1	Allow for doubtful accts-tenants	(1,048)	-	-	-	(1,048)
127	Notes loans current	-	-	-	-	-
128	Fraud Recovery	-	-	-	-	-
129	Accrued interest receivable	-	-	-	-	-
120	<b>Total receivables, net of allowance for doubtful accounts</b>	9,770	-	-	-	9,770
142	Prepaid expenses & other assets	-	-	-	-	-
143	Inventories	-	-	-	-	-
143.1	Allowance for obsolete inventories	-	-	-	-	-
144	Inter-program - due from	32,389	-	-	(32,389)	-
150	<b>TOTAL CURRENT ASSETS</b>	58,513	2,606	4,890	(32,389)	33,620
161	Land	247,179	-	-	-	247,179
162	Buildings	2,858,700	-	-	-	2,858,700
164	Furn, equip & mach-admin	86,354	15,974	-	-	102,328
165	Leasehold Improvement	1,268,134	-	-	-	1,268,134
166	Accumulated depreciation	(3,086,460)	(14,724)	-	-	(3,101,184)
167	Construction in Progress	-	-	-	-	-
160	<b>Total capital assets, net of accumulated depreciation</b>	1,373,907	1,250	-	-	1,375,157
174	Other assets	-	-	-	-	-
180	<b>TOTAL NON-CURRENT ASSETS</b>	1,373,907	1,250	-	-	1,375,157
190	<b>TOTAL ASSETS</b>	1,432,420	3,856	4,890	(32,389)	1,408,777
200	Deferred Outflows of Resources	-	-	-	-	-
290	<b>TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES</b>	1,432,420	3,856	4,890	(32,389)	1,408,777
312	Accounts payable ≤ 90 days	5,943	-	-	-	5,943
321	Accrued wage/payroll taxes	-	-	-	-	-
322	Accrued comp absences-current	170	187	-	-	357
333	AP Other Government	11,742	-	-	-	11,742
341	Tenant security deposits	16,348	-	-	-	16,348
342	Deferred revenue	340	-	-	-	340
347	Inter-program - due to	-	11,944	20,445	(32,389)	-
310	<b>TOTAL CURRENT LIABILITIES</b>	34,543	12,131	20,445	(32,389)	34,730
354	Accrued comp abs-non-current	694	749	-	-	1,443
350	<b>TOTAL NON-CURRENT LIABILITIES</b>	694	749	-	-	1,443
300	<b>TOTAL LIABILITIES</b>	35,237	12,880	20,445	(32,389)	36,173
400	Deferrd Inflows of Resources	-	-	-	-	-
508.4	Invested in Capital Assets, Net of Related Debt	1,373,907	1,250	-	-	1,375,157
511.4	Restricted Net Position	-	27,729	-	-	27,729
512.4	Unrestricted Net Position	23,276	(38,003)	(15,555)	-	(30,282)
513	<b>TOTAL EQUITY/NET POSITION</b>	1,397,183	(9,024)	(15,555)	-	1,372,604
600	<b>TOTAL LIABILITIES AND EQUITY/NET POSITION</b>	1,432,420	3,856	4,890	(32,389)	1,408,777

# Housing Authority of the City of La Joya

Financial Data Schedule

December 31, 2018

Line Item #	Account Description	Public Housing Projects Total	Housing Choice Vouchers	Blend Component Unit	Elimination	TOTAL
70300	Net tenant rental revenue	126,460	-	-	-	126,460
70400	Tenant revenue other	179	-	-	-	179
70500	<b>Total Tenant Revenue</b>	<b>126,639</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>126,639</b>
70600	HUD operating grant	224,652	624,947	-	-	849,599
70610	Capital grants	54,156	-	-	-	54,156
71100	Investment income - unrestricted	18	-	-	-	18
71400	Fraud recovery	-	-	-	-	-
71500	Other revenue	6,692	-	9,995	-	16,687
71600	Gain or Loss on Sale of Capital Assets	-	-	-	-	-
70000	<b>TOTAL REVENUE</b>	<b>412,157</b>	<b>624,947</b>	<b>9,995</b>	<b>-</b>	<b>1,047,099</b>
91100	Administrative salaries	65,468	54,515	25,550	-	145,533
91200	Auditing fees	206	114	-	-	320
91400	Advertising and marketing	-	-	-	-	-
91500	Employee benefit contrib-admin	10,010	1,730	-	-	11,740
91600	Office expenses	88,139	306	-	-	88,445
91700	Legal expense	34,287	16,901	-	-	51,188
91800	Travel	4,208	3,509	-	-	7,717
91900	Other	1,778	23,115	-	-	24,893
91000	<b>Total Operating - Administrative</b>	<b>204,096</b>	<b>100,190</b>	<b>25,550</b>	<b>-</b>	<b>329,836</b>
93100	Water	1,410	-	-	-	1,410
93200	Electricity	6,878	629	-	-	7,507
93300	Gas	614	-	-	-	614
93800	Other utilities	135	-	-	-	135
93000	<b>Total utilities</b>	<b>9,037</b>	<b>629</b>	<b>-</b>	<b>-</b>	<b>9,666</b>
94100	Ordinary maint & oper-labor	1,741	-	-	-	1,741
94200	Ordinary maint & oper-materials	33,077	-	-	-	33,077
94300	OM&O - Contracts	48,397	-	-	-	48,397
94500	Employee benefit contr-ord maint	9,315	-	-	-	9,315
94000	<b>Total maintenance &amp; Operation</b>	<b>92,530</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>92,530</b>
95200	Protective service - other contact cost	205	-	-	-	205
95000	<b>Total Protective Services</b>	<b>205</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>205</b>
96110	Property Insurance	-	-	-	-	-
96120	Liability Insurance	14,508	-	-	-	14,508
96130	Workmen's Compensation	-	-	-	-	-
96140	All other insurance	4,111	-	-	-	4,111
96100	<b>Total Insurance Premium</b>	<b>18,619</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>18,619</b>
96200	Other general expenses	-	-	-	-	-
96210	Compensated absences	864	936	-	-	1,800
96300	Payments in lieu of taxes	793	-	-	-	793
96400	Bad debt - tenants rent	-	-	-	-	-
96600	Bad debt - other	-	-	-	-	-
96000	<b>Total Other General Expenses</b>	<b>1,657</b>	<b>936</b>	<b>-</b>	<b>-</b>	<b>2,593</b>
96900	<b>TOTAL OPERATING EXPENSES</b>	<b>326,144</b>	<b>101,755</b>	<b>25,550</b>	<b>-</b>	<b>453,449</b>
97000	<b>EXCESS REVENUE OVER OPERATING EXPENSES</b>	<b>86,013</b>	<b>523,192</b>	<b>(15,555)</b>	<b>-</b>	<b>593,650</b>
97100	Extraordinary maintenance	-	-	-	-	-
97300	Housing Assistance Payments	-	531,240	-	-	531,240
97305	HAP Port Ins	-	-	-	-	-
97400	Depreciation expense	157,294	1,000	-	-	158,294
90000	<b>TOTAL EXPENSES</b>	<b>483,438</b>	<b>633,995</b>	<b>25,550</b>	<b>-</b>	<b>1,142,983</b>
10010	Operating Transfer In	-	-	-	-	-
10020	Operating Transfer Out	-	-	-	-	-
10000	<b>Excess (Deficiency) of Revenue Over (Under) Expenses</b>	<b>(71,281)</b>	<b>(9,048)</b>	<b>(15,555)</b>	<b>-</b>	<b>(95,884)</b>

MEMO ACCOUNT INFORMATION						
11030	Beginning net position	1,468,464	24	-	-	1,468,488
11040	Prior Period Adjust and Correction of Error	-	-	-	-	-
11041	Equity Transfers	-	-	-	-	-
	Ending net position	1,397,183	(9,024)	(15,555)	-	1,372,604



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Board of Commissioners  
Housing Authority of the City of La Joya  
La Joya, Texas

### Independent Accountants' Report On Applying Agreed-Upon Procedures

We have performed the procedure enumerated in the second paragraph, which was agreed to by Housing Authority of the City of La Joya (the Housing Authority) and the U.S. Department of Housing and Urban Development, Real Estate Assessment Center (REAC), on whether the electronic submission of certain information agrees with related hard copy documents included within the Single Audit reporting package. The Housing Authority is responsible for the accuracy and completeness of the electronic submission. The sufficiency of the procedure is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedure enumerated below either for the purpose this report has been requested or for any other purpose.

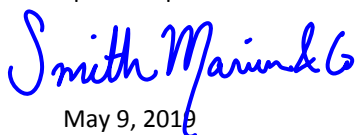
We compared the electronic submission of the items listed in the "UFRS Rule Information" column with corresponding documents listed in the "Hard Copy Documents" column. The results of the performance of our agreed-upon procedure indicate agreement or non-agreement of electronically submitted information and hard copy documents as shown in the attached chart.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on the electronic submission of the items listed in the "UFRS Rule Information" column in the chart below. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you. Further, we take no responsibility for the security of the information transmitted electronically to the U.S. Department of Housing and Urban Development, REAC.

We were engaged to perform an audit in accordance with *2CFR 200 Subpart F, Audits Requirements* for the Housing Authority as of and for the year ended December 31, 2018, and have issued our reports thereon dated May 9, 2019. The information in the "Hard Copy Documents" column was included within the scope, or was a by-product, of that audit. Further, our opinion on the fair presentation of the Housing Authority's Financial Data Schedule (FDS) dated May 9, 2019, was expressed in relation to the basic financial statements of the Housing Authority taken as a whole.

A copy of the reporting package required by OMB Uniform Guidance, which includes the auditors' report, is available in its entirety from the Housing Authority. We have not performed any additional auditing procedures since the date of the aforementioned audit reports.

This report was intended solely for the information and use of the Housing Authority and the U.S. Department of Housing and Urban Development, REAC, and is not intended to be and should not be used by anyone other than these specified parties.

  
May 9, 2019

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# Housing Authority of the City of La Joya

Agreed Upon Procedures  
For the Year Ended December 31, 2018

PROCEDURE	UFRS RULE INFORMATION	HARD COPY DOCUMENTS	AGREES
1	Balance Sheet and Revenue and Expense (data line items 111 to 1121)	Financial Data Schedule , all CFDA's	x
2	Footnotes (data element G5000-010)	Footnotes to audited basic financial statements	x
3	Type of opinion on the FDS (data element G5100-010)	Auditor's supplemental report on FDS	x
4	Audit findings narratives (data element G5200-010)	Schedule of Findings and Questioned costs	x
5	General information (data element series G2000, G2100 G2200, G2300, G9000, G9100)	OMB Data Collection Form	x
6	Financial statement report information (data element G3000-010 to G3000-050)	Schedule of Findings and Questioned costs, Part 1 and OMB Data Collection Form	x
7	Federal program report information (data element G4000-020 to G4000-040)	Schedule of Findings and Questioned costs, Part 1 and OMB Data Collection Form	x
8	Type of Compliance Requirement (G4000-020 & G4000-030)	OMB Data Collection Form	x
9	Basic financial statements and auditors' reports required to be submitted electronically	Basic financial statements (inclusive of auditor reports)	x

# HOUSING AUTHORITY OF THE CITY OF LA JOYA



Single Audit Report

For the Year Ended December 31, 2018

# Housing Authority of the City of La Joya

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For the Year Ended December 31, 2018

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**Board of Commissioners**

**Housing Authority of the City of La Joya**

La Joya, Texas

**Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With *Government Auditing Standards***

**Independent Auditors' Report**

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the business-type activities of the Housing Authority of the City of La Joya (Authority), as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise Housing Authority of the City of La Joya's basic financial statements, and have issued our report thereon dated May 9, 2019.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Housing Authority of the City of La Joya's internal control over financial reporting (internal control) to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Housing Authority of the City of La Joya's internal control. Accordingly, we do not express an opinion on the effectiveness of Housing Authority of the City of La Joya's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses. **Findings 2018-001 and 2018-005.**

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies. **Findings 2018-002 and 2018-004.**

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Housing Authority of the City of La Joya's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as **items 2018-005, 2018-006 and 2018-009.**

**Authority's Response to Findings**

The Authority's response to the findings identified in our audit are described in the accompanying corrective action plan. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly we express no opinion on it.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



May 9, 2019





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Smith Marion & Co. • Certified Public Accountants

Brentwood Office • 5141 Virginia Way, Suite 400 • Brentwood, TN 37027 • (615) 309-8959

**Board of Commissioners**

**Housing Authority of the City of La Joya**

La Joya, Texas

**Report On Compliance On Each Major Federal Program; Report On Internal Control Over Compliance; And Report On The Schedule Of Expenditures Of Federal Awards Required By OMB Uniform Guidance**

**Independent Auditors' Report**

**Report on Compliance for Each Major Federal Program**

We have audited Housing Authority of the City of La Joya's (Authority) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended December 31, 2018. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the Authority's major federal programs based on our audit of the type of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

**Basis for Qualified Opinion on Section 8 Housing Choice Voucher Program**

As described in the accompanying schedule of findings and questioned costs, the Authority did not comply with requirements regarding **CFDA 14.871 Section 8 Housing Choice Voucher Program** as described in finding number **2018-007 and 2018-010** for Special Testing Compliance and finding number **2018-003** for Reporting Compliance. Compliance with such requirements is necessary, in our opinion, for the Authority to comply with the requirements applicable to that program.

### **Qualified Opinion on Section 8 Housing Choice Voucher Program**

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on Section 8 Housing Choice Voucher Program for the year ended December 31, 2018.

### **Other Matters**

The Authority's response to the noncompliance findings identified in our audit are described in the accompanying corrective action plan. The Authority's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### **Report on Internal Control Over Compliance**

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal controls over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control over compliance was for the limited purpose described in the preceding paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items **2018-007, 2018-008 and 2018-010**, that we consider to be material weaknesses.

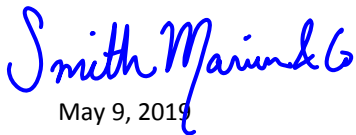
The Authority's response to the finding identified in our audit is described in the accompanying Corrective Action Plan. This response was not subjected to the auditing procedures applied in the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

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**Report on Schedule of Expenditures of Federal Awards Required by Uniform Guidance**

We have audited the financial statements of the Authority as of and for the year ended December 31, 2018, and have issued our report thereon dated May 9, 2019, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedure in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in blue ink, reading "Smith Marino & Co", is positioned above the date.

May 9, 2019

**Housing Authority of the City of La Joya**

Schedule of Expenditures of Federal Awards

For the year ended December 31, 2018

<u>Federal Grantor/Pass Through Grantor Program Title</u>	<u>CFDA No.</u>	<u>Federal Expenditures</u>
<b>U.S. Department of Housing And Urban Development</b>		
<i>Direct Program Expenditures</i>		
Section 8 Housing Choice Vouchers	14.871	\$ 624,947
<b>Total Housing Voucher Cluster</b>		<u>624,947</u>
Public and Indian Housing	14.850	174,260
Public Housing Capital Fund	14.872	104,548
<i>Total Direct Programs Expenditures</i>		<u>903,755</u>
<b>Total U.S. Department of Housing And Urban Development</b>		<u>903,755</u>
<b>TOTAL FEDERAL AWARDS</b>		<u><u>\$ 903,755</u></u>

**Summary of Significant Accounting Policies Applicable to the Schedule of Expenditures of Federal Awards:****1. Scope of Presentation**

The accompanying schedule presents the expenditures incurred (and related awards received) by the Authority that are reimbursable under federal programs of federal agencies providing financial assistance awards. For the purposes of this schedule, only the portion of program expenditures reimbursable with such federal funds are reported in the accompanying schedule. Program expenditures in excess of the maximum federal or state reimbursement authorized or the portion of the program expenditures that were funded with, state, local or other nonfederal funds are excluded from the accompanying schedule.

**2. Basis of Accounting**

The expenditures included in the accompanying schedule were reported on the accrual basis of accounting. Expenditures are recognized in the accounting period in which the related liability is incurred. Expenditures reported included any property or equipment acquisitions incurred under the federal program.

The Schedule was prepared from only the accounts of the grant programs and, therefore, does not present the financial position or results of operations of the Authority.

**3. De Minimis Indirect Cost Rate**

The Authority has not elected to use the 10% de minimis indirect cost rate as allowed in the Uniform Guidance, section 414.

**Housing Authority of the City of La Joya**

Schedule of Findings and Questioned Costs

For the Year Ended December 31, 2018

**SECTION I - Summary of Auditors' Results****Financial Statements**

1. Type of Auditor Report on the financial statements: Unmodified.
2. Internal control over financial reporting:
- a. Material weakness identified   X   yes        no
- b. Significant deficiencies identified that are not considered to be material weaknesses   X   yes        none reported
3. Noncompliance material to financial statements   X   yes        no

**Federal Awards**

4. Internal control over major programs:
- a. Material weakness identified   X   yes        no
- b. Significant deficiencies identified that are not considered to be material weaknesses        yes   X   none reported
5. Type of auditors' report on compliance for major programs: Qualified.
6. Audit findings noted which are required to be reported in accordance with 2 CFR 200.516(a)   X   yes        no
7. Identification of Major Programs:

CFDA No.	Name of Federal Program(s)
14.871	Section 8 Housing Choice Voucher Program

8. The Dollar Threshold Used To Distinguish Between Type A and Type B Programs: \$750,000.
9. Auditee qualified as a low-risk auditee        yes   X   no

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**SECTION II – Financial Statement Findings**

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**Finding 2018-001 - Segregation of Duties and Fraud, Waste and Abuse**  
**Material Weakness and Material Noncompliance – Repeat Finding**

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**Criteria**

To ensure effective internal control, the Authority must maintain adequate segregation of duties between individual who authorize transaction and individual who have control over related assets.

**Condition**

The present system of internal accounting controls are not documented in any type of policy or handbook. We documented multiple instances of the controls failing and being overridden by management resulting in one individual writing, signing and depositing checks.

**Questioned Costs**

\$7,500 of funds transferred from Section 8 program and \$12,000 of funds transferred from Public Housing program to the Blended Component Unit (Nonprofit Corporation).

**Effect**

The Authority has significant questioned costs resulting from this lack of controls. Additionally, they are subject to a high-risk of fraud, waste, and abuse of Authority funds.

**Cause**

Several factors appear to have contributed to the above described issue. A lack of documentation, training, and enforcement as well as missing critical control environment related controls have led to this condition.

**Recommendation**

We recommend that the Authority update the policy and handbooks to document the segregation of duties as well as implement training and monitoring plans.

**Finding 2018-002 - Tenant Accounts Receivable/Write-Offs**  
**Significant Deficiency – Repeat Finding**

---

**Criteria**

Under the terms of the annual contributions contract, each project shall develop and administer to promote efficiency, economy and stability. In addition, tenant accounts receivable write-offs approved by the Board must be recorded in the General Ledger in a timely manner. Additionally, GAAP requires the use of the allowance method for writing off bad debt.

**Condition**

We noted in 2017 that tenant balances for evicted and current tenants at month end were written off directly to the tenant revenue accounts. The 2018 detail general ledger lacked details, on a monthly basis, to determine if the write offs were directly to the rental income however, with the lack of a bad debt expense, we concluded this practice is on-going.

**Questioned Costs**

None noted.

**Effect**

Tenant revenue and bed debt expense are understated while tenant account receivables are overstated.

**Cause**

There is a general lack of higher-level fiscal management and oversight, leading to a deficiency of GAAP and industry knowledge key for an effective accounting system.

**Recommendation**

We recommend that the Authority place greater emphasis on collection of all outstanding balances. In addition, the Authority must ensure that all collection write offs be recorded as a bad debt expense and not against the tenant rental income.

**Finding 2018-004 - Timecard Maintenance**

**Significant Deficiency – Repeat Finding**

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**Criteria**

In accordance with 29 CFR Part 516, Subpart A – General Requirements. §516.2 Employees subject to minimum wage or minimum wage and overtime provisions pursuant to section 6 or sections 6 and 7(a) of the Act.

(a) Items required. Every employer shall maintain and preserve payroll or other records containing the following information and data with respect to each employee to whom section 6 or both sections 6 and 7(a) of the Act apply:

- (5) Time of day and day of week on which the employee's workweek begins (or for employees employed under section 7(k) of the Act, the starting time and length of each employee's work period). If the employee is part of a workforce or employed in or by an establishment all of whose workers have a workweek beginning at the same time on the same day, a single notation of the time of the day and beginning day of the workweek for the whole workforce or establishment will suffice,"
- (7) Hours worked each workday and total hours worked each workweek (for purposes of this section, a "workday" is any fixed period of 24 consecutive hours and a "workweek" is any fixed and regularly recurring period of 7 consecutive workdays).

**Condition**

During our audit procedures, we noted hourly employees did not keep a record of hours worked, no time sheet or time card, nor did they or a supervisor attest to the hours work in 2017. The employees began keeping time sheets in mid 2018 however the supervisor was still not review and approving over-time or time sheets.

**Questioned Costs**

Undeterminable.

**Effect**

The Authority was not in compliance with federal labor regulations regarding record maintenance. Additionally, the Authority has the potential for risks associated with the following:

- Hours or pay period may be inaccurately entered. Payment for time not worked will result in overstatement of expenditures incurred or an unrecorded liability for time worked but not paid, and
- Employee may not properly report leave taken. Typically, annual leave balances are paid to employees upon separation. If an employee does not report leave taken, the government may pay for time not worked and leave not owed,

**Cause**

The Authority staff was unaware of the requirements.

**Recommendation**

We recommend that the Authority require employees complete time sheets for submission to payroll. The employee should sign the time sheet certifying that the time recorded was actually worked. The employee's supervisor should approve the time sheet. The supervisor's approval serves as authorization to pay the employee. The supervisor's signature certifies the employee actually worked the time recorded. In addition, time sheets should indicate any leave taken.

**Finding 2018-005 - Public Housing Waiting List Tenant Selection and Fraud, Waste and Abuse  
Material Weakness and Material Noncompliance – New Finding**

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**Criteria**

Administration of waiting list 24 CFR 982.204 states "except for special admissions, participants must be selected from the PHA waiting list. The PHA must select participants from the waiting list in accordance with admission policies in the PHA administrative plan."

**Condition**

During the course of the audit, we were informed of fraudulent activity that involved several Public Housing Tenants who were selected from the wait list out of order as "political favors" and the employees were instructed by the previous Executive Director to selected tenants that did not comply with the criteria listed above.

**Questioned Costs**

None.

**Effect**

The above condition resulted in the Authority being out of compliance with federal regulations.

**Cause**

The condition was caused by an ineffective control environment led by management override of control processes. The staff we spoke to indicated they feared for their job security and knowingly violated federal regulations.

**Recommendation**

We recommend that the governing body encourage employees utilities available communication channels, such as the HUD hotline and Office of Inspector General hotline when they are asked to knowingly violate federal regulations.

**Finding 2018-006 - Board Minutes  
Material Noncompliance – Repeat Finding**

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**Criteria**

In accordance with the Texas Government Code - Title 5. Open Government; Ethics - Subtitle A. Open Government - Chapter 551. Open Meetings - Subchapter B. Record of Open Meeting, the Authority as a governmental body is required to prepare and keep minutes or make a recording of each open meeting of the body. Furthermore, Federal regulation 2 CFR Part 200.333 states "Financial records, supporting documents, statistical records, and all other non-Federal entity records pertinent to a Federal award must be retained for a period of three years from the date of submission of the final expenditure report or, for Federal awards that are renewed quarterly or annually, from the date of the submission of the quarterly or annual financial report, respectively, as reported to the Federal awarding agency or pass-through entity in the case of a subrecipient."

**Condition**

We were unable to obtain a copy of the minutes for the entire year and also any meeting after December 31, 2017 to the date of our report were not available for review.



**Questioned Costs**

None noted.

**Effect**

There is no assurance regarding the discussions that may have taken place at the meetings of the committee and, likewise, no assurance regarding official actions of the committee that may have had a financial impact. Additionally, the Authority is out of compliance with both federal and state requirements.

**Cause**

The board minutes were maintained solely on a single lost computer and that no back up exists.

**Recommendation**

We recommend board minutes be produced on paper as well as retained in electronic format that is periodically backed-up. Adequate and reliable backup systems of IT information are critically important to ensure that business operations can continue on an uninterrupted basis and records are properly maintained.

**Finding 2018-009 - Federal Procurement of Construction Contracts**

**Material Noncompliance – Repeat Finding**

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**Criteria**

In accordance with 2 CFR Part 200.318-326 General Procurement Standards, the non-Federal entity must use its own documented procurement procedures which reflect applicable State, local, and tribal laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in this part (2 CFR 200.318-326).

**Condition**

The Authority has no documented procurement policy in place.

**Questioned Costs**

Undetermined.

**Effect**

Material construction contracts are lacking documentation of adherence to Federal Procurement Standards.

**Cause**

Personnel responsible for overseeing the procurement process were not informed of Federal requirements and no internal controls were in place to ensure compliance.

**Recommendation**

We recommend that Management receive training and implement procedures to ensure compliance with the above regulations as it relates to procurements utilizing Federal funds.

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**SECTION III – Federal Award Findings and Questioned Costs**

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**US Department of Housing and Urban Development**

Direct Program

Program Name: Section 8 Housing Choice Voucher Program

CFDA No.: 14.871

**Finding 2018-003 (R)**

Material Non-Compliance

Reporting

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***Criteria***

In accordance with *24 CFR section 985.3(h) – Report Submission*, PHAs with jurisdiction in metropolitan Fair Market Rent areas have the option of submitting data to HUD with their annual SEMAP certifications on the percent of their tenant-based Section 8 families with children who live in, and who have moved during the PHA fiscal year to, low poverty census tracts in the PHA's principal operating area. Submission of this information with the SEMAP certification makes the PHA eligible for bonus points under SEMAP.

***Condition***

During the audit, we noted that the SEMAP was not completed or filed with HUD as required.

***Cause***

Agency was unaware the SEMAP was required.

***Effect***

The Authority was in violation of the Federal Regulation relating to report submissions.

***Questioned Costs***

Not applicable.

***Context***

The Authority is a troubled status agency that is required to file SEMAP annual with HUD until the status is resolved.

***Recommendation***

We recommend that Management implement procedures to ensure compliance with the above regulations as it relates to all federal awards.

**US Department of Housing and Urban Development**

Direct Program

Program Name: Section 8 Housing Choice Voucher Program

CFDA No.: 14.871

**Finding 2018-007 (R)**

Material Non-Compliance

Special Test and Provisions – Housing Quality Standards Inspection/HQS Enforcement

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***Criteria***

The PHA must inspect the unit leased to a family at least bi-annually to determine if the unit meets Housing Quality Standards (HQS) and the PHA must conduct quality control re-inspections. The PHA must prepare a unit inspection report (24 CFR §§982.405, 983.103)).

Additionally, for units under HAP contract that fail to meet HQS, the PHA must require the owner to correct any life threatening HQS deficiencies within 24 hours after the inspections and all other HQS deficiencies within 30 calendar days or within a specified PHA-approved extension. If the owner does not correct the cited HQS deficiencies within the specified correction period, the PHA must stop (abate) HAPs beginning no later than the first of the month following the specified correction period or must terminate the HAP contract. The owner is not responsible for a breach of HQS as a result of the family's failure to pay for utilities for which the family is responsible under the lease or for tenant damage. For family-caused defects, if the family does not correct the cited HQS deficiencies within the specified correction period, the PHA must take prompt and vigorous action to enforce the family obligations (24 CFR sections 982.158(d) and 982.404).

***Condition***

During our audit, the Authority was unable to provide us with a reliable listing of HQS Inspections or any supporting documentation that any HQS inspections had taken place during the fiscal year under examination. Therefore, we were not able to perform the necessary procedures as described in the Uniform Guidance Part IV HUD 14.871 to ensure compliance with the above criteria.

***Cause***

Controls over compliance associated with the Authority's grants of federal funds are inadequate.

***Effect***

The Authority is non-compliant with the federal regulations over this federal program, this could potentially result in significant operating and financial penalties.

***Questioned Costs***

Undetermined.

***Context***

This issue is considered pervasive.

***Recommendation***

We suggest the Authority structure a system capable of properly overseeing compliance with regulations relative to these grants as well as maintaining more accurate and complete documentation of adherence to compliance.

**US Department of Housing and Urban Development**

Direct Program

Program Name: Section 8 Housing Choice Voucher Program

CFDA No.: 14.871

**Finding 2018-008 (R)**

Allowable Costs/Cost Principles

Material Weakness

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**Criteria**

Uniform Guidance (2 CFR part 225/87) outlines the basic guidelines regarding the factors affecting the allowability and reasonableness of costs as follows:

1. Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria:

- Be necessary and reasonable for proper and efficient performance and administration of Federal awards.
- Be allocable to Federal awards under the provisions of this Circular.
- Be authorized or not prohibited under State or local laws or regulations.
- Conform to any limitations or exclusions set forth in these principles, Federal laws, terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items.
- Be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit.
- Be accorded consistent treatment. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost.
- Except as otherwise provided for in this Circular, be determined in accordance with generally accepted accounting principles.
- Not be included as a cost or used to meet cost sharing or matching requirements of any other Federal award in either the current or a prior period, except as specifically provided by Federal law or regulation.
- Be the net of all applicable credits.
- Be adequately documented.

2. Reasonable costs. A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. The question of reasonableness is particularly important when governmental units or components are predominately federally funded. In determining reasonableness of a given cost, consideration shall be given to:

- Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the governmental unit or the performance of the Federal award.
- The restraints or requirements imposed by such factors as: sound business practices; arms length bargaining; Federal, State and other laws and regulations; and, terms and conditions of the Federal award.
- Market prices for comparable goods or services.
- Whether the individuals concerned acted with prudence in the circumstances considering their responsibilities to the governmental unit, its employees, the public at large, and the Federal Government.
- Significant deviations from the established practices of the governmental unit which may unjustifiably increase the Federal award's cost.

## **Housing Authority of the City of La Joya**

Schedule of Findings and Questioned Costs

For the Year Ended December 31, 2018

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### ***Condition***

During our audit procedures, we noted multiple instances in which proper supporting documentation was not maintained for expenses to the Federal programs. Additionally, we noted payments being made on costs that would be deemed unallowable as well as unreasonable. Specific items that we deemed unallowable were alcohol beverages reimbursed by federal program to employee/board members. Specific items that we deemed unreasonable, and areas of waste and/or abuse, occurred when several meals were on a receipt that was reimbursed to a single board member with no documentation on who the other meals were for, it was unclear if it was another board member or family members or spouses. In addition, these individuals received per diem amounts for attending conference with no documented plan.

### ***Cause***

The Authority did not have proper internal control in place to ensure only allowable and documented expense were paid with federal funds. Also, there are no controls in place to monitor spending related to administrative costs, resulting in the administrative expenses exceeding the administrative revenue during the current fiscal year.

### ***Effect***

Certain costs paid for by the Authority with federal funds violate federal regulations and consequently could be disallowed by HUD which would require repayment from non-federal sources.

### ***Questioned Costs***

We were unable to determine an estimated question cost due to the nature of the test, however the restricted net position indicates that at least \$27,729 of those expenses should be questioned since the cash is no longer in the Housing Choice Voucher checking account.

### ***Context***

We selected a sample of 40 disbursement of those disbursements 22 payments lacked documentation to support the payment, majority of those only had a check stub as support for the disbursement. No documentation was provided to support those charges.

### ***Recommendation***

We recommend that the Authority implement a system of controls to only pay expenses that are both allowable and properly documented in accordance with Uniformed Guidance and Governmental Auditing Standards.

**US Department of Housing and Urban Development**

Direct Program

Program Name: Section 8 Housing Choice Voucher Program

CFDA No.: 14.871

**Finding 2018-010 (N)**

Material Weakness and Material Non-Compliance

Special Test and Provisions – Utilities Allowance Calculation

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***Criteria***

In accordance with the 2014 Appropriations Act Section 242, the utility allowance for a family shall be the lower of: (1) The utility allowance amount for the family unit size; or (2) the utility allowance amount for the unit size of the unit rented by the family. However, upon the request of a family that includes a person with disabilities, the PHA must approve a utility allowance higher than the applicable amount if such a higher utility allowance is needed as a reasonable accommodation in accordance with HUD's regulations in 24 CFR part 8 to make the program accessible to and usable by the family member with a disability. This provision applies only to vouchers issued after the effective date of this notice (June 12, 2014) and to current program participants. For current program participants, a PHA must implement the new allowance at the family's next annual reexamination, provided that the PHA is able to provide a family with at least 60 days' notice prior to the reexamination.

***Condition***

During the audit, we noted multiple HUD Forms 50058 had utility allowances calculated not in accordance with the above criteria.

***Cause***

Personnel responsible for calculating the utility allowances were not informed of requirements and no internal controls were in place to ensure compliance.

***Effect***

The Authority was in violation of the Federal Regulation which resulted in errors in calculating housing assistance payments (HAP) and utility reimbursement payments.

***Questioned Costs***

Undetermined.

***Context***

The Authority had roughly 120 vouchers issued throughout the fiscal year under examination which would translate to 1,400 housing assistance payment transactions for the year. Of these we reviewed 20 individual housing assistance payment transactions, and found 8 instances of noncompliance.

***Recommendation***

We recommend that Management implement procedures to ensure compliance with the above regulations as it relates to the Section 8 Housing Choice Voucher Program.

**2017-001   Segregation of Duties**

**Condition:** The present system of internal accounting controls does not provide for segregation of duties in the performance of functions due to limited size of the staff. As a result of this condition, there is a likelihood that intentional or unintentional errors will go undetected.

**Status:**      **Repeat findings see 2018-001.**

**2017-002   Tenant Accounts Receivable / Write-Offs**

**Condition:** Auditor noted that tenant balances for evicted and current tenants at month end were written off directly to the tenant revenue accounts. These write-offs were done to increase the REAC score as noted in board minutes reviewed during the year.

**Status:**      **Repeat findings see 2018-002.**

**2017-003   SEMAP Supporting Documentation**

**Condition:** The indicators appearing on the December 31, 2017 SEMAP certification could not be verified as they were either not supported by adequate documentation or no documentations were maintained to substantiate PHA's responses.

**Status:**      **Repeat findings see 2018-003.**

**2017-004   Time Card Maintenance**

**Condition:** During audit procedures it was noted hourly employees do not keep a record of hours worked, no time sheet or time card, nor do they or a supervisor attest to the hours worked.

**Status:**      **Repeat findings see 2018-004.**

**Housing Authority of the City of La Joya**  
Schedule of Prior Year Findings and Questioned Costs  
For the Year Ended December 31, 2018

---

**2017-005    Unreported Taxable Wages/Benefits**

**Condition:** Audit revealed there were several forms of compensation paid to personnel not reported to the Internal Revenue Service (IRS) on the quarterly form 941s and the annual W-2 forms of employee as taxable income.

**Status:**        **This finding has been resolved.**

**2017-006    Board Minutes**

**Condition:** The board minutes after December 31, 2017 until the audit report was issued in September 2018 were unavailable for review.

**Status:**        **Repeat findings see 2018-006.**

**2017-007    Housing Quality Standards Inspection (HQS)/HQS Enforcement**

**Condition:** The Authority was unable to provide auditor with reliable listing of HQS Inspections or any supporting documentation that any HQS inspections had taken place during the fiscal year under examination.

**Status:**        **Repeat findings see 2018-007.**

**2017-008    Allowable Cost/Cost Principles**

**Condition:** Audit revealed instance in which proper supporting documentation was not maintained for expenses to the federal program. Additionally, noted were payments being made on costs that would not be deemed allowable as well as unreasonable.

**Status:**        **Repeat findings see 2018-008.**

**2017-009    Federal Procurement of Construction Contracts**

**Condition:** The Authority had no documented procurement policy in place.

**Status:**        **Repeat findings see 2018-009.**



**Finding 2018-001 - Segregation of Duties and Fraud, Waste and Abuse  
Material Weakness and Material Noncompliance – Repeat Finding**

**Contact Person:** Board of Commissioners – Chairperson

**Anticipated Completion Date:** August 1, 2019

**Management's Corrective Action Plan:** The Housing Authority will update the policy and procedures for documentation of the segregation of duties and controls in place.

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**Finding 2018-002 - Tenant Accounts Receivable/Write-Offs  
Significant Deficiency – Repeat Finding**

**Contact Person:** Board of Commissioners – Chairperson

**Anticipated Completion Date:** December 31, 2019

**Management's Corrective Action Plan:** The housing authority has procured the services of BDO for accounting services. The Housing Authority did not have the financial capacity to pay BDO monthly for their services so the reconciled at year end for the FASS Submission. The Housing Authority intends to write off TARs appropriately before the end of each fiscal year. The Housing Authority has developed a system to track move outs and debts owed to the Housing Authority. The Board of Commissioners will write off Tenant Accounts Receivable timely and they will be recorded accurately, by BDO, into the FDS.

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**Finding 2018-003 - Timecard Maintenance  
Significant Deficiency – Repeat Finding**

**Contact Person:** Board of Commissioners – Chairperson

**Anticipated Completion Date:** November 01, 2018

**Management's Corrective Action Plan:** Previous administration started implementation of time cards and approval then told staff to not worry about it. On November 1, 2018 staff began using time cards to be reviewed by a supervisor before payment.

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**Finding 2018-004 - Public Housing Waiting List Tenant Selection and Fraud, Waste and Abuse**  
**Material Weakness and Material Noncompliance – New Finding**

**Contact Person:** Board of Commissioners – Chairperson

**Anticipated Completion Date:** June 1, 2019

**Management's Corrective Action Plan:** Staff has attended training for proper waitlist management and selection from the waiting list. Since November 1, 2018 all selections have been made in correct order of selection from the waiting list.

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**Finding 2018-005 - Board Minutes**  
**Material Noncompliance – Repeat Finding**

**Contact Person:** Board of Commissioners – Chairperson

**Anticipated Completion Date:** June 1, 2019

**Management's Corrective Action Plan:** Beginning October 10<sup>th</sup>, 2018 the Housing Authority has printed board meeting documentation and approved minutes for the month of October 2018. From this point forward the Board of Commissioners, led by the Chairperson will ensure that administration will prepare the minutes and properly document board meetings and have resolutions and minutes signed.

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**Finding 2018-006 - Federal Procurement of Construction Contracts**  
**Material Noncompliance – Repeat Finding**

**Contact Person:** Board of Commissioners – Chairperson

**Anticipated Completion Date:** October 1, 2019

**Management's Corrective Action Plan:** The Board of Commissioners will adopt a procurement policy that is in accordance with 2 CFR Part 200. The Director, under direction of the Board of Commissioners will implement and follow the Procurement Policy. Board and staff will attend procurement training as funds are available.

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**Finding 2018-007**

Material Non-Compliance  
Reporting

**US Department of Housing and Urban Development**

Direct Program

Program Name: Section 8 Housing Choice Voucher Program

CFDA No.: 14.871

**Contact Person:** Chairperson, Board of Commissioners

**Anticipated Completion Date:** February 15, 2020

**Management's Corrective Action Plan:** The Housing Authority Director and Commissioner will ensure that SEMAP is submitted with board approval before the due date.

**Finding 2018-008**

Material Non-Compliance

Special Test and Provisions – Housing Quality Standards Inspection/HQS Enforcement

**US Department of Housing and Urban Development**

**14.871 Housing 8 Housing Choice Voucher Program**

**Contact Person:** Chairperson, Board of Commissioners

**Anticipated Completion Date:** March 1, 2019

**Management's Corrective Action Plan:** HQS inspections were contracted out in January and February of 2019. All Pre-HQS inspections are preformed but due to limited staff inspections were performed by contracted staff. All units were inspected in January and February 2019.

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**Finding 2018-009**

Allowable Costs/Cost Principles

Significant Deficiency

**US Department of Housing and Urban Development**

**14.871 Housing 8 Housing Choice Voucher Program**

**Contact Person:** Chairperson, Board of Commissioners

**Anticipated Completion Date:** September 1, 2019

**Management's Corrective Action Plan:** The Authority will implement a system of controls to only pay expenses that are both allowable and properly documented in accordance with Uniformed Guidance and Governmental Auditing Standards. The Housing Authority will adopt a travel policy including a reimbursement and/or per diem plan. Many of the credit card accounts have been closed. Appropriate documentation will be retained for each expense.

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**Finding 2018-010**

Material Weakness and Material Non-Compliance

Special Test and Provisions – Utilities Allowance Calculation

**Contact Person:** Chairperson, Board of Commissioners

**Anticipated Completion Date:** June 1, 2019

**Management's Corrective Action Plan:** Robert K Bein was contracted to complete a utility allowance review and update all utility allowance schedules. The amended schedule is awaiting board approval. The Housing Authority implemented new housing management software. Staff will be trained on changing the utility allowance to the appropriate allowance for the voucher or unit size, whichever is lower.

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